

**APPLICATION FOR A FINDING
OF
SIGNIFICANT FINANCIAL DISTRESS

STAFF ANALYSIS**

Chapter 72, Statutes of 1993 (SB 1033), et al.

Welfare and Institutions Code Section 17000.6

California Code of Regulations, Title 2, Chapter 2.5, Article 6.5

County of Butte Application Filing of February 10, 2005

EXECUTIVE SUMMARY

Senate Bill 1033 was enacted in 1993 and added section 17000.6 to the Welfare and Institutions Code. That section authorizes a county board of supervisors to adopt a general assistance standard of aid below the level established in Welfare and Institutions Code section 17000.5 if the Commission on State Mandates finds that meeting the general assistance standard of aid established by section 17000.5 results in significant financial distress. The Commission shall not make a finding of significant financial distress unless the county has made a compelling case that basic county services, including public safety, cannot be maintained. As originally enacted, a Commission finding allowed the county board of supervisors to reduce general assistance benefits for a period of up to 12 months. In 1996, however, the Legislature increased the period to up to 36 months.

On February 10, 2005, Butte County filed an application for a finding of significant financial distress with the Commission. The basis for the Application is that the ongoing fiscal situation in the County has seriously impacted the ability of departments to provide services and meet increasing demands.

The County's average caseload for General Assistance is approximately 330. The current monthly rate of General Assistance Standard of Aid is \$289 per month. The proposed reduced rate authorized by a Commission finding of significant financial distress is \$221 per month. The projected annual savings in General Purpose Revenue from a reduction in General Assistance would be approximately \$269,280 on an annualized basis.

Applicant

County of Butte (County)

Chronology

02/10/05	County files its Application for a Finding of Significant Financial Distress with the Commission (Application)
02/17/05	The Commission files a deficiency funding request
03/14/05	The Legislature approves the deficiency funding request
03/24/05	The Commission notifies the County that the Application is complete
03/24/05	Staff requests additional information from the County
03/30/05 - 04/14/05	County provides responses to staff questions
04/04/05	Legal Services of Northern California submits comments on the Application
04/05/05	County posts notice of the May 12, 2005 public hearing in the County courthouse and local welfare offices and community employment centers
04/11/05	Staff requests vacancy information from the County
04/12/05	County provides response to staff request for vacancy information
04/14/05	County responds to Legal Services of Northern California comments on the Application
05/02/05	Commission staff issues draft staff analysis for the May 12, 2005 hearing
05/12/05	Commission conducts Public Hearing in Oroville, California

Background

The County received two previous findings of significant financial distress from the Commission. On October 29, 1996, the County received a 12-month finding of significant financial distress. This finding was statutorily extended to three years and expired on December 28, 1999. On August 27, 1999, the County filed a Reapplication. The Commission concluded in its Statement of Decision that the County made a compelling case that meeting the standards in Welfare and Institutions Code section 17000.5 would result in significant financial distress. Further, there was compelling evidence to grant the finding for a maximum of 36 months. The finding took effect on December 29, 1999 and expired December 28, 2002.

The County's 2005 Application

On February 8, 2005, the Butte County Board of Supervisors ("Board") adopted Resolution No. 05-021, which authorized the filing of an application for relief from state mandated level of general assistance payments. The Board declared, in summary, that the County has unmet needs totalling \$47.5 million plus \$9.0 million of additional projected unmet needs for a total of \$56.5

million, which has caused most of the County's basic services, including public safety and services to the "vulnerable populations" to fall well below adequate levels.

The County claims that the circumstances causing financial distress and declining basic services levels are largely beyond the power of the County to control. The County cites state property tax shifts, unstable revenue sources, and minimal ability to raise revenue locally, lack of control over state mandate programs, growing numbers of clients who are in poverty and crime cycles, and minimal ability to change organizational structure in service delivery programs in cost effective ways. The County, in response to past budget shortfalls and constraints, has reorganized and consolidated services, utilized multi-year financial planning and strategic planning, and implemented other efficiency measures. These efforts have helped. But, they have not been able to keep the available funds for basic services from falling below adequate or effective levels. Therefore, compliance with the standard of aid mandated by Welfare and Institutions Code section 17000.5 will result in significant financial distress to the County.

In this application, the County contends that, "following a period of gradual and fragile process toward fiscal balance, Butte County again finds itself in tenuous financial straits....." The County anticipated submitting the application in August 2004 and thus the application contains tables and narrative for the County's Fiscal Year (FY) 2004-05 Proposed Budget of \$318,877,032. "Due to staff turnover, unanticipated vacancies, and resource constraints.....it [the Application] was put on hold." Subsequently, the Board adopted the FY 2004-05 Final Budget of \$320,894,751, an increase of approximately \$2 million. The County filed the Application with the Commission on February 10, 2005.

Due to resource considerations, the County chose not to completely rewrite the Application. It used the Proposed Budget for department-by-department and other detailed analyses as the basis for the Application that was originally developed and submitted an addendum that describes the major differences between the Proposed Budget and the Final Budget. The major changes included an increase in the revenue projections for property taxes, other taxes, and other revenue sources and a decrease in state revenues. Expenditure projections include an increase in Public Safety and a decrease in the General Government function.

The amount of unmet needs based on the Proposed Budget was \$56,886,585. Unmet needs based on the Final Budget is \$56,474,728. This is \$411,857 less than what was projected for the Proposed Budget. A summary of unmet needs can be found on page ES-7 of the staff analysis.

The General Assistance (GA) standard of aid reduction being proposed under this Application would save approximately \$269,280 on an annualized basis. The County requests that the finding be made for 36 consecutive months.

Comments from Legal Services of Northern California¹

Legal Services of Northern California points out that for the County to qualify for relief that it must present a "compelling case" that "basic county services, including public safety cannot be maintained" without a reduction in GA grant levels. Legal Services contends that the County's

¹ See Exhibit H.

Application fails to show that, absent a finding of significant financial distress, that the County will not be able to maintain basic county services, including public safety. They request that the County explain how much is recovered through both the Interim Assistance program and through other recovery methods. These recoveries sharply reduce the amount of any potential savings that would be accomplished by reducing GA.

It is not clear in the Application whether the County indicated the amount of GA benefits that is reimbursed through state and federal disability payments. The County recovered \$180,569 in the first six months of FY 2004-05. This, in addition to the grant recoveries, reduces the amount of any potential “savings” that would be accomplished by reducing GA levels.

Further, on or around August 2006, the County expects to receive a windfall of about \$4 million from the state due to previously unpaid vehicle license fees. Legal Services points to a newspaper account of the Board of Supervisors meeting on February 8, 2005, when there was a discussion about how to use this money. After hearing testimony from the Sheriff and the District Attorney, urging that the money be spent on public safety, the Supervisors voted 4-1 to accept the \$4 million in a way that the money can only be used for solar projects.

Legal Services explains that GA recipients are the neediest and most disenfranchised people. They receive a maximum grant of \$289 per month to pay their rent, food, utilities and other basic needs. Social services for GA recipients changed since the County’s last application. The program that provides basic health care was recently decimated due to state budget deficits. Recipients no longer get dental care or prescription glasses, which impacts their ability to obtain employment. The County has never applied for waiver of food stamp restrictions that would allow recipients to get food stamps beyond three months. Reductions in basic GA levels combined with these existing cuts will only increase levels of homelessness, hunger, unemployment and desperation for numerous County residents and will lead to increased need for basic services.

County’s Response to Legal Services of Northern California²

The County states that it is “somewhat” correct that the GA caseload has decreased since the County’s last application in 1999. However, the Department of Employment and Social Services’ data shows a small, but steady, increase in the number of cases over the last four years.

The County disagrees that many recipients are paid less than the maximum cash grant. The average cost per case for the first six months of FY 2004-05 is \$285 per person, which is very close to the current GA grant level of \$289.

The Interim Assistance program serves some who are unable to obtain employment because of long-term disabilities. They receive GA benefits until the Social Security Administration makes a determination regarding their disability. If the recipient is eligible to receive Supplemental Security Income (SSI), the County is reimbursed for the GA that is paid. The County cannot estimate the amount that is reimbursed due to SSI eligibility determinations, program requirements, and whether the client follows through on the application process. The County agrees that Legal Services’ estimate of the amount that will be reimbursed (\$180,569) is

² See Exhibit N.

reasonable. The County was reimbursed \$265,364 in FY 2001-02, \$299,618 in 2002-03, and \$360,856 in 2003-04 from Social Security and other sources.

The expected VLF Gap Loans is neither a “windfall” or “unanticipated.” The anticipated repayment is not included in the “Five-Year Financial Forecast” (Table 9 on page 50 of the Application) because it is not an ongoing source of revenue. The Forecast assumes that the money will be spent on one-time expenses such as deferred maintenance or facility improvements, consistent with County budget and financial philosophy, rather than fund ongoing expenses (such as GA).

When recipients need eyeglasses or dental work, the County attempts to assist them with in-kind services. Also, the GA program allows for up to \$250.00 in special needs. To date, no clients have cooperated and instead present themselves as harmed by the cuts.

The County, following Board of Supervisors’ approval on March 1, 2005, submitted an application to the California Department of Social Services to begin implementing a waiver of work requirements, which will result in more Food Stamp recipients being eligible for food stamps for a longer period of time.

The County cannot maintain basic public safety services and, in fact, decreased services below the FY 2002-03 level in 2004-05. The County had to close one Juvenile Hall module, reducing the population from 80 to 60. Due to increases in the California Department of Forestry contract, the County has reduced expenditures in areas such as vehicle replacement, staffing (through holding vacancies), training, and station maintenance.

Staff Review of County’s Application

The Commission contracted with the Department of Finance Office of State Audits and Evaluation to review the County’s Application and to prepare Sections II, III, and IV of the Staff Analysis, including findings and recommendations.

There are five sections in the Staff Analysis:

- I. Applicable Law and Standard of Review
- II. Overview of County Finances
- III. Review of Program Needs and Expenditure Flexibility
- IV. Review of Resource Flexibility
- V. Recommendations

CONCLUSION AND STAFF RECOMMENDATIONS

Subject to testimony at the hearing and submittal of additional information supporting unmet needs, staff makes the following recommendations based upon review and analysis of Butte County’s Application for a Finding of Significant Financial Distress, including public comments and the County’s responses.

Recommendation on County Finances

Staff recommends that the Commission find:

- The County's FY 2004-05 Final Budget totals \$320.9 million, with a General Fund contingency appropriation of \$5.6 million. While this represents increased financing requirements of approximately \$2 million from prior year, the General Fund contingency is expected to decrease by \$.4 million.
- The County's discretionary expenditure flexibility is constrained both by fund restrictions and by state and federal mandates, leaving \$70.4 million, of the \$320.9 million in Final Budget appropriations, as theoretically available for discretionary use.
- The full \$70.4 million cannot be considered truly discretionary inasmuch as 35 percent, or \$24.7 million is directed toward state mandated costs and state established required maintenance of efforts.
- The County's total available discretionary resource for FY 2004-05 is projected to decline by \$4 million from \$74.4 million in FY 2004-05.
- Demands outside of the County's growth in program and service, such as retirement benefit contributions, California Department of Forestry contract costs, and reduced reimbursements funded through state mandate claims, are increasing.

Recommendation on Unmet Program Needs

Subject to the County submitting additional information to support their underlining assertions as indicated in Section III of the analysis, staff recommends that the Commission find **\$16,084,899** in unmet needs. This amount represents the approximate county portion of costs associated with basic county needs, which are unmet. Certain departments are funded from county- and non-county sources. The recommended unmet need reflects a reduction proportionate with certain county departments' ratio of county- to non-county funds. See the following schedule.

DEPARTMENT	2004 APPLICATION TOTAL UNMET NEEDS (1)	2004 APPLICATION FUTURE UNMET NEEDS (2)	2004 APPLICATION CURRENT UNMET NEEDS (3) = (1) - (2)	ADJUSTMENT PER COUNTY RESPONSES (4)	2004 REVISED CURRENT UNMET NEEDS (5) = (3) + (4)	CSM RECOMMENDATION
Public Safety Departments						
District Attorney	\$ 746,433	\$ -	\$ 746,433	\$ -	\$ 746,433	\$ 662,250 c
Fire	3,764,687	-	3,764,687	(1,593,479)	2,171,208	1,198,825 a
Probation	9,909,689	-	9,909,689	-	9,909,689	3,416,776 c
Public Defender	-	-	-	-	-	-
Sheriff	9,713,038	-	9,713,038	-	9,713,038	6,691,617 c
Other Public Safety						
Agricultural Commissioner	55,155	-	55,155	-	55,155	13,352
Clerk-Recorder	-	-	-	-	-	-
Development Services	1,212,000	-	1,212,000	-	1,212,000	5,000
Water and Resource	4,200,000	3,150,000	1,050,000	40,000	1,090,000	- a
Health & Human Services						
Behavioral Health	7,012,000	2,792,000	4,220,000	13,970	4,233,970	- a
Public Health	1,042,700	-	1,042,700	(36,000)	1,006,700	389,450 a,c
Welfare-Adult & Children's Svcs	-	-	-	-	-	-
Employment and Social Svcs	453,900	-	453,900	170,000	623,900	97,750 a,c
General Government						
Administrative Office	700,000	-	700,000	-	700,000	- b
Assessor	318,290	-	318,290	-	318,290	318,290
Auditor-Controller	219,250	-	219,250	-	219,250	161,850
County Counsel	93,156	-	93,156	-	93,156	93,156 c
Elections and Registration	3,021,113	2,639,200	381,913	-	381,913	34,500
General Services	1,399,564	-	1,399,564	(3,000)	1,396,564	550,360 a,b,c
Information Services	1,136,759	452,705	684,054	(35,698)	648,356	436,690 a,b,c
Information Services-Comm.	2,478,600	660,000	1,818,600	(219,600)	1,599,000	1,538,000 a,b
Personnel	317,603	-	317,603	-	317,603	309,753
Treasurer-Tax Collector	215,000	-	215,000	-	215,000	40,000 c
Public Works	9,119,151	-	9,119,151	493,432	9,612,583	- a
Education & Recreation						
Farm and Home Advisor	66,250	-	66,250	-	66,250	-
Library	1,228,190	-	1,228,190	-	1,228,190	127,280
TOTAL	\$ 58,422,528	\$ 9,693,905	\$ 48,728,623	\$ (1,170,375)	\$ 47,558,248	\$ 16,084,899

a. The unmet need figures were revised to reflect the County response to staff questions, dated March 30, 2005.

b. There is a conflict between information in Table 7 on page 15 of Butte County Application and unmet need narratives in the Butte County Application. Staff confirmed with the County that unmet need described in the application narrative is the correct figure.

c. Staff's recommendation to approve these amounts is contingent upon the County providing additional information to support the need

Recommendation on Resource Flexibility

In summary, staff recommends the Commission find that the County has **\$8,290,839** in resource flexibility as follows:

Summary of Resource Flexibility

	Staff Recommendation
REVENUE	
Motor Vehicle in-lieu Tax	\$ -
Sales Tax	-
Property Tax	-
Prop. 172 Sales Tax	1,139,014
Charges for Services	171,441
Revenue Flexibility	1,310,455
RESERVES	
Appropriation for Contingency	5,616,078
Cost Savings Flexibility	525,000
Unexpended Available Resources	7,367
Internal Service Fund Balance	831,939
Reserves Flexibility	6,980,384
STATUTORY RELIEF	
TOTAL RESOURCE FLEXIBILITY	\$ 8,290,839

Review of Unmet Program Needs and Resource Flexibility

The General Assistance standard of aid reduction proposed in this Application would save approximately **\$269,280** on an annualized basis. The Application includes a request that the finding be made for a 36 consecutive month period. The County's Final 2004-05 Budget does not include any savings for General Assistance.

Staff recommends that the Commission find the County's Total Resource Flexibility is in the amount of **\$8,290,839**, and that, for purposes of this staff analysis, the County's Unmet Needs for Basic Services are in the amount of **\$16,084,899**.

If the County applied its Total Resource Flexibility to offset Unmet Needs, there would be a remaining balance of **\$7,794,096** in unmet needs (\$16,084,899– \$8,290,839=\$7,794,096).

Recommendation on Application for Finding of Significant Financial Distress

For the reasons stated above and in accordance with Welfare and Institutions Code section 17000.6, staff recommends that the Commission find that Butte County has made a compelling case that meeting the general assistance standard of aid established in Welfare and Institutions

Code section 17000.5 will result in significant financial distress to the County and that, absent this finding, basic county services, including public safety, cannot be maintained.

Recommendation on Duration of Finding

The Application includes a five-year fiscal forecast for the County's General Fund, which is shown in the table below.³ This table includes the impact of the "Local Government Package" and other changes in the state budget. The table shows that the County will begin to improve financially in FY 2006-07. The County notes in the Application that the cost estimates are on the high end of the probable range, while revenues have been projected conservatively. The forecast anticipates continued annual departmental under-spending from appropriations, which should result in a continuing year-to-year fund balance carry-overs.

Five-Year Fiscal Forecast - General Fund Only

	Proposed Budget FY 2004-05	Forecast Budget FY 2005-06	Forecast Budget FY 2006-07	Forecast Budget FY 2007-08	Forecast Budget FY 2008-09
Appropriations - Total Dept Requirements	\$149,583,315	\$153,757,763	\$158,091,499	\$162,592,317	\$167,269,142
Revenues:					
Property/Sales/ Other Taxes	\$23,802,075	\$24,721,282	\$25,676,270	\$26,668,443	\$27,699,256
State/Federal/Other Government	87,451,320	89,696,461	92,005,543	94,380,585	96,823,670
Charges for Service	19,482,021	19,871,661	20,269,095	20,674,477	21,087,966
All Other Revenues	14,316,896	12,608,259	12,907,176	13,213,854	13,528,504
Total for All Revenues	\$145,052,312	\$146,897,663	\$150,858,085	\$154,937,358	\$159,139,396
Subtotal Balance or (Gap)	(\$4,531,003)	(\$6,860,100)	(\$7,233,414)	(\$7,654,958)	(\$8,129,745)
Estimated Beginning Fund Balance	\$8,681,003	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Estimated End Fund Balance or (Gap)	\$4,150,000	\$3,139,900	\$2,766,586	\$2,345,042	\$1,870,255
Appropriation for Contingencies	\$4,150,000	\$4,600,000	\$4,600,000	\$4,600,000	\$4,600,000
End of Year Fund Balance	\$0	(\$1,460,100)	(\$1,833,414)	(\$2,254,958)	(\$2,729,745)
Anticipated Additional State Impacts	(\$1,085,000)	(\$910,500)	\$2,304,084	\$2,739,425	\$3,013,449
Anticipated Year-End Fund Balance/(Deficit)	(\$1,085,000)	(\$2,370,600)	\$470,670	\$5,484,466	\$283,704

³ Butte County Application, p.50

The evidence provided to date reflects that the financial condition for Butte County will improve. The County received \$4.3 million less in VLF backfill revenues (VLF gap) in FY 2003-04 due to the lag time required by the state. AB 1768⁴ provided that this gap would be repaid to local governments in FY 2006-07. The County anticipates receiving \$4,315,228 for unpaid VLF's on or around August 2006. As part of the new tax shifts, the state plans to eliminate the VLF backfill and reduce the VLF rate from 2 percent to 0.65 percent. In exchange for the loss of VLF revenue, counties will receive an equivalent amount of property taxes. However, for the first two years (FYs 2004-05 and 2005-06), counties will not receive the full amount because the state will retain \$700 million. The County contributions are estimated to be \$1,968,640 in each year.⁵ Consequently, starting in FY 2006-07, the County will receive additional property tax revenues. Also, as specified in Government Code section 17617, the state will begin repaying its mandate obligations over five years starting FY 2006-07. And, as required by article XIII B, section 6 of the California Constitution, beginning in FY 2005-06 the state will either appropriate in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year.

Therefore, Staff recommends that the Commission make a finding of significant financial distress for a period of **12 months**.

⁴ Assembly Bill 1768, Chapter 231, Statute of 2003

⁵ Butte County 2004-05 Proposed Budget Message, p. 9